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SUBJECT: RWANDA INVESTMENT CLIMATE STATEMENT 2008

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Following is the text of the Investment Climate Statement for Rwanda for 2008:

RWANDA INVESTMENT CLIMATE STATEMENT

OPENNESS TO FOREIGN INVESTMENT

The Government of Rwanda (GOR) recognizes that the private sector is an essential engine of development. The government welcomes foreign investment in policy and in practice.

In March 2006, the government enacted an updated investment law to facilitate necessary licenses, visas, work permits, and tax incentives. The law provides permanent residence and access to land for investors who deposit USD 500,000 in a commercial bank in Rwanda for a period not less than six months. This law also fixed the minimum initial capital investment requirement for foreign investors at USD 250,000.

In 2007, foreign companies successfully opened operations, merged with local companies, and participated in privatization programs. No statutory limits on foreign ownership or control exist, and there is no official economic or industrial strategy that has discriminatory effects on foreign investors. In fact, there are no statutory restrictions on investment in any sector in Rwanda.

Nonetheless, the commercial legal infrastructure is still in the developing stages. There are currently no specialized commercial courts in Rwanda; they are projected to start in early 2008.

A business law reform commission is in place to draft major business laws including intellectual property protection, contract law, bankruptcy regulations, and arbitration law.

There is no mandatory screening of foreign investment, but the Rwanda Investment and Export Promotion Agency (RIEPA) does evaluate business plans with the objective of recording incoming foreign investments, allocating investment incentives to qualified foreign investors, and determining the commitment of investors. The evaluation is not mandatory for those who do not seek tax incentives or an investment

certificate. This practice does not limit competition or protect domestic interests.

Through tax incentives and outreach, the government welcomes and seeks to encourage foreign investment. The only difference in treatment between foreign and domestic companies is the initial capital requirement for official registration (registration is not mandatory) - USD 250,000 for foreign investors; USD100,000 for domestic investors. This has not proven to be a barrier; there are no reports of foreign investors declining to invest due to these differing treatments. Foreign investors can start businesses irrespective of the initial capital requirement.

Foreign investors can acquire real estate, but there is a general limit on land ownership. Land is owned by the state, but both foreign and local investors acquire land through lease-hold agreements that extend from 50 to 99 years. These lease-hold agreements are accepted as collateral by commercial banks.

The Government of Rwanda established the Privatization Secretariat and the National Tender Board to ensure

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transparency and foreign companies have participated equally and successfully.

In 2005, the law establishing RIEPA was expanded to include export promotion reflecting the Government's focus on export driven development. No discrimination has been reported against foreign investors who use RIEPA's "one stop" investor services. Investors who do not use RIEPA, however, often incur extra charges from private sector contractors such as shipping agents or brokers. Legally, foreign firms are treated equally with regards to taxes, access to licenses, approvals, and procurement.

No laws exist specifically authorizing private firms to adopt articles of incorporation or association which limit or prohibit foreign investment, participation, or control. No such practices have been reported, either.

RIEPA organizes investment conferences, both in Rwanda and abroad, in attempts to attract foreign investment into the country. On many occasions RIEPA directors and local businesses join the President of Rwanda in tours around the world to attract foreign investors. RIEPA assists potential investors in securing all required approvals, certificates, land for their projects, work permits, and tax incentives. In 2006, RIEPA registered 69 investment projects worth USD 245.5 million. Foreign direct investments accounted for 49 percent. By comparison, only 40 investment projects were registered in 2005. RIEPA expects figures for 2007 to be even higher. Dubai World, a company from United Arab Emirates, is reportedly investing USD 240 million in a variety of tourism projects, making it the largest investor in the country. Some observers discount RIEPA FDI figures as overly optimistic.

CONVERSION AND TRANSFER POLICIES

There is no difficulty in obtaining foreign exchange, or transferring funds associated with an investment into a freely usable currency and at a legal market clearing rate. In 1995, the Government of Rwanda established a market -determined exchange rate system under which all lending and deposit interest rates were liberalized. The Central Bank holds daily foreign exchange sales freely accessed by commercial banks.

Investors can remit payments only through authorized commercial banks, not through any parallel markets. There is no limit on the inflow or outflow of funds, but justification for all transfers over USD 20,000 is required by the Central Bank to facilitate the oversight of potential money laundering.

There is no limitation on the inflow of funds for remittances, but there are some restrictions on the outflow of export earnings. Export earnings must be repatriated within three months after the goods cross the border unless the exporter makes arrangements to have more time. Tea proceeds must be deposited after auctions in Mombasa (the usual site for sale of Rwandan tea). Repatriated export earnings deposited in commercial banks must match the exact declaration the exporter used crossing the border. Justifications are required to transfer more than USD 20,000 per year from Rwandan commercial banks. Rwandans working overseas can make remittances to their home country.

It takes three days to transfer money using SWIFT financial services and investors are allowed to use many other financial services such as Western Union and MoneyGram, which may be faster.

The Rwandan Franc (RwF) is convertible for essentially all business transactions since January 2007. Rwanda has a liberal monetary system and complies with IMF Article VIII and all Organization for Economic Cooperation and Development (OECD) convertibility requirements. The Rwandan Franc exchange rate is set against a batch of currencies, including the Euro, the Pound Sterling, and the USD.

EXPROPRIATION AND COMPENSATION

The Government of Rwanda is authorized to expropriate property if "in the public interest" and "for qualified private investment" under the expropriation law adopted in April 2007. Compensation is negotiated directly between the buyer and the seller. Expropriation procedures in theory take four months from the time the application is approved to final disposition. Valuation remains non-transparent and controversial.

Expropriation actions have been common in the capital because Kigali is undergoing major development, although it does not appear to be done in a discriminatory fashion. No industrial plant has been expropriated thus far, as expropriation has been limited to residential and small farm parcels. For detailed information on the expropriation law, visit www.primature.gov and official gazette law No 18/2007 of 19 April 2007.

There are no laws that require local ownership, but the Organic Land law allows government to expropriate land that lies fallow or is underutilized.

DISPUTE SETTLEMENT

The GOR established an arbitration center in 1998 as an alternative dispute resolution mechanism, but it has not lived up to expectations according to businesses that have utilized it. Rwanda is a member of the International Center for the Settlement of Investment Disputes (ICSID) and African Trade Insurance Agency (ATI), which are supported by the World Bank and Lloyds of London. ATI covers risk against restrictions on import and export activities, inconvertibility, expropriation, war, and civil disturbances.

Rwanda currently has no specialized commercial courts; they will begin operation in early 2008.

Until commercial courts begin operation and new business codes are enacted and operate appropriately, there will be no effective means for enforcing property and contractual rights. Laws governing commercial establishments, investments, privatization and public investment, land, and protection and conservation of the environment are the main statutes governing investments in Rwanda. Laws on privately financed infrastructure projects, insurance and mining are still lacking.

Judgments of foreign courts and governing law clauses in

agreements are accepted and enforced by local courts. There have been growing numbers of private investment disputes in Rwanda. The Government has never been involved as a complainant or respondent in a World Trade Organization dispute settlement.

A U.S. investor is currently involved in a commercial dispute that has not been resolved through arbitration. Restructuring of the court system has created continuous delays and frustration for the investor, whose case has been in the court system since 2002. Settlement negotiations continue between the government and the investor. Rwanda signed and ratified the Multilateral Investment Guarantee Agency (MIGA) convention on October 27, 1989. MIGA issues guarantees against non-commercial risks to enterprises that invest in member countries.

PERFORMANCE REQUIREMENTS AND INCENTIVES

The Government maintains measures that allegedly violate the WTO's TRIMs (Trade Related Investment Measures). There are parallel imports of goods where patents and original trade marks are not registered and recognized. However, as a least developed country Rwanda has up to 2013 to abide by specific WTO TRIMs.

Unless stipulated in a memorandum of understanding that concerns the purchase of privatized enterprises, performance requirements are not imposed as a condition for establishing, maintaining, or expanding other investments. They are mostly imposed as a condition to access tax and investment incentives. Investors who demonstrate capacity to add more value, and invest in priority sectors enjoy more tax and investment incentives which include VAT exemptions on all imported raw materials, 100 percent write-off on research and development costs, 5 percent to 7 percent reduction in corporate income tax if the company exports products and services valued from USD 3 million to USD 5 million, duty exemption on equipment, and a favorable accelerated rate of depreciation of 50 percent in the first year.
Although there are no legal obligations regarding these matters, foreign investors are encouraged to transfer technology and expertise to local staff in the development of human resources. Work permits are granted to foreign expatriates as long as they are key personnel and fall into categories of skilled labor where Rwandans are not available.

RIEPA has been relatively successful in developing important incentives and publicizing investment opportunities. Registered investors obtain certificates that bring benefits, including exemption from value-added tax and duties when importing machinery, equipment, and raw materials. RIEPA also assists with the issuance of expatriate work permits, securing all the required government permits, and assisting with land acquisition if required. Grants and special access to credit is provided to investors promoting rural areas. There no import quotas for investors.

There is no legal requirement that investors purchase from local sources or export a certain percentage of their output. In order to benefit from incentives of the planned free export zone, a certain percentage of the finished product must be exported. There is regulation regarding access to foreign exchange in relation to exports.

More tax incentives are given to investors who create significant export-oriented growth. Determination is made upon request and is based on several factors: exports must total at least 80 percent of production (or must be at least 10 percent if manufactured under bond); capital investment must be at least USD 100,000 (local investors and COMESA members) or USD 250,000 (non-COMESA investors).

There is no legal obligation that nationals own shares in foreign investments or that shares of foreign equity be reduced over time. Technology transfer can only be imparted

to local employees. There is no condition that technology be transferred on certain terms.

The Government is not involved in assessing the type and source of raw materials for performance but the National Bureau of Standard determines quality standards. Investors are not required to disclose proprietary information to government authorities.

U.S. and other foreign firms are allowed to participate in government financed and/or subsidized research and development programs. In practice, foreign firms are given special priority in research projects because Rwanda has not yet fully developed a highly trained cadre of research professionals.

There are no onerous visa residence or work permit requirements that inhibit foreign investors' mobility. U.S. nationals are not required to have visas for the first 90 days of their stay in Rwanda. Other foreign nationals have their visas processed in a timely manner. As a result of joining the East African Community, East Africans are not required to have work permits in Rwanda. RIEPA facilitates visas and work permits for potential investors.

RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

Local and foreign investors have the right to own and establish business enterprises in all forms of remunerative activity. Private ownership is preserved in the constitution of Rwanda. The constitution stipulates that every person has the right to private ownership, whether personal or in association with others. It cannot be violated except in the public interest, and with procedures that are determined by law, and subject to fair compensation.

Private entities are also allowed to acquire and to dispose of interests in business enterprises. Foreign nationals may hold shares in locally incorporated companies. Competing with public enterprises is not a serious concern for the private sector as the Government has privatized and continues to privatize public enterprises that would compete with the private sector.

PROTECTION OF PROPERTY RIGHTS

The legal system protects and facilitates acquisition and disposition of all property rights. Investors involved in extensive agriculture have lease-hold titles to their land; investors are able to secure other forms of property titles, if needed. The land law passed July 14, 2005 stipulates modalities of property registration, but no registries have been established yet. Real property titles cannot be held without development on the land. Title can be donated or sold.

Rwanda adheres to key international agreements on intellectual property rights and adequate protection of intellectual property rights. As a least developed country, Rwanda has up 2013 to abide by specific Trade Related Intellectual Property (TRIP) arrangements. As a member of the Common Market for East and Southern Africa (COMESA), Rwanda is automatically a member of the African Regional Intellectual Property Organization (ARIPO). It is also a member of the World Intellectual Property Organization (WIPO) and is currently working towards conformity of its legislation to WTO trade-related aspects of intellectual property. The Ministry of Commerce (MINICOM), the Rwandan Revenue Authority (RRA), and the Rwandan Bureau of Standards (RBS) work together to address issues involving counterfeit products on the Rwandan market. In one instance, an American firm was grateful to Rwandan support for destroying contraband shoe polish that entered the country illegally. Through the RBS and the RRA, Rwanda has earned accolades for its protection of intellectual property rights, but many

goods make it to market that violate patents, especially pharmaceutical drugs.

Rwanda has not yet ratified WIPO internet treaties, but steps to implement and enforce the WTO TRIPS agreements have taken place. Intellectual property legislation covering patents, trademarks and copyrights have been introduced in parliament and await action by that body. A Registration Service Agency due to be established early in 2008 will further improve intellectual property rights; the Agency will register all commercial entities and their businesses.

TRANSPARENCY OF THE REGULATORY SYSTEM

The GOR generally uses transparent policies and effective laws to foster clear rules consistent with international norms. Institutions such as the Rwanda Revenue Authority, the Ombudsman's office, the Bureau of Standards, the Rwanda Utilities Regulatory Agency, the National Tender Board, and the Privatization Secretariat all have clear rules and procedures. Regulations concerning the Rwanda Environment Management Agency and the Rwanda Utilities and Regulation Agency in contrast lack the same degree of transparency and confuse investors.

There is no formalized mechanism to publish draft laws for public comment, although civil society is often accorded the opportunity to review proposed laws. Nonetheless, there is no government effort to restrict foreign participation in industry standards-setting consortia or organizations.

Some investors complain that the strict enforcement of tax, labor, and environmental laws impede investment, but the complaints come mainly from local investors unaccustomed to modern regulatory mechanisms.

Bureaucratic procedures including those for licenses and permits are not sufficiently streamlined. A draft law establishing a Rwanda Registration Service Agency has been passed, and the Agency will be established early in 2008. The law is intended to simplify procedures for obtaining trade permits and licenses.

Rwanda established an Ombudsman's office in 2004 that monitors transparency and compliance with regulations in all governmental sectors. The Rwanda Utility Regulation Agency, the Auditor General's Office, the Anticorruption Division in the Rwanda Revenue Authority, the National Bureau of Standards, and the National Tender Board are all in place to enforce regulations as well. The press exposed instances of bad debts and malfeasance in 2007 involving private citizens and GOR officials. Government investigation and public exposure has led to some arrests and resignations within the GOR, and Rwanda continues to fight corruption vigorously.

There is no informal regulatory process managed by nongovernmental organizations. Existing legal, regulatory and accounting systems are generally transparent and consistent with international norms. However, some public officials lack autonomy in certain circumstances.

A key component of the GOR's regulatory system is the Auditor General's Office, established in 1999 to audit government adherence to fiscal controls. The Auditor General's report for 2007 cited many accounting irregularities. The Prosecutor General and the police are using the report to examine official conduct of government business in several dozen institutions.

No consumer protection associations exist. Through the Rwanda Private Sector Federation, the business community has been able to lobby the GOR and to provide feedback on government policy and execution.

EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

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Access to affordable credit is a serious challenge in Rwanda, as interest rates are relatively high and loans are usually short term. Nonetheless credit is allocated on market terms and foreign investors are able to get credit on the local market if they have collateral and bankable projects.

The private sector has limited access to credit instruments. Most Rwandan banks are conservative, risk-averse and trade in limited commercial products. A variety of credit instruments were introduced with the privatization of the commercial banks and more products such as mortgages will expand as the industry matures. Credit cards are still lacking but debit cards have been introduced on a limited basis.

The Central Bank encourages and facilitates investments through the sale of treasury bills, but capital markets and the associated regulatory systems do not yet exist.

A 2006 United Nations Conference on Trade and Development publication reported that the percentage of non-performing loans in the commercial market was 24 percent.

From 2001 to 2005, the total capital requirement for commercial banks was 1.5 billion Rwanda Francs (USD 3 million) and RF 3 billion for investments banks. In 2006, the central bank increased the capital requirement for commercial banks and investment banks to USD 9.2 million or 5 billion Rwanda Francs.

Since there is no public stock exchange, corporations trade shares among themselves or with private investors. No hostile takeovers have occurred involving foreign investors, and both the Central Bank and the GOR have been very active in seeking foreign investors for the banking sector. Private firms have not engaged in arrangements to restrict foreign investment.

Plans are underway to develop capital markets. Ministry of Finance and Central Bank officials are working on the creation of a bond market with assistance from the U.S. Department of the Treasury. An effective regulatory system is monitored by the Central Bank, which is given high marks by the IMF.

POLITICAL VIOLENCE

Rwanda remains a stable country with little violence. A strong police and military provide an umbrella of security that continues to minimize criminal activity and political disturbances. There have been no incidents involving politically motivated damage to projects or installations since the 1994 genocide and war.

Presidential elections in 2003 were peaceful, although significant voting irregularities were documented. Rwanda no longer faces insurgent activity from rebel groups operating in the Democratic Republic of Congo. Rwanda acts in concert with its neighbors to fight crime and terrorism, and the GOR actively cooperates in efforts to identify and freeze the assets of known terrorist individuals or organizations.

CORRUPTION

The GOR senior leadership maintains a consistent policy of combating corruption within Rwanda. Although less corrupt than many other governments, the GOR is confronted with periodic allegations of misconduct by officials using their office for personal gain. In general, such incidents are investigated and punishment imposed when guilt is established; enforcement is equal for both foreign and local investors. When corruption involves high-ranking officials, they are dismissed or prosecuted. Senior government officials appear to take pride in Rwanda's reputation for

being tough on corruption, and the parliament takes an active role in investigating public officials accused of corruption.

Rwanda has signed and ratified the UN Anticorruption Convention. It is a signatory of the OECD Convention on Combating Bribery and of the African Union Anticorruption Convention. Giving and accepting a bribe is a criminal act under law, and penalties depend on circumstances surrounding the specific case. U.S. firms have not identified corruption as an obstacle to investment.

Corruption is generally low, but the 2007 Auditor General report highlighted irregularities in government procurement. Businessmen report occurrences of petty corruption in the customs-clearing process, but there is almost no reported corruption in transfers, dispute settlement, the regulatory system, taxation or investment performance requirements.

A local company cannot deduct a bribe to a foreign official from taxes. A bribe by a local company to a foreign official is a crime in Rwanda.

Institutions including the Ombudsman Office, the Anti-Corruption Unit in the Rwanda Revenue Authority, and the Auditor General's Office identify corruption cases. The police and Prosecutor General's office prosecute the actual acts.

Transparency International or other similar regional non governmental organizations do not operate in Rwanda, yet periodically issue reports.

BILATERAL INVESTMENT AGREEMENTS AND AGOA

Rwanda is eligible for trade preferences under the African Growth and Opportunity Act (AGOA), which the United States enacted to extend duty-free and quota-free access to the U.S. market for nearly all textile and handicraft goods produced in eligible beneficiary countries. A Trade and Investment Framework Agreement (TIFA) was signed between the U.S. and Rwanda in 2006. Negotiations continue toward a Bilateral Investment Treaty.

OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

The Overseas Private Investment Corporation (OPIC) has provided a single investment guarantee in Rwanda to Sorwathe, an American-owned tea factory.

The exchange rate regime is stable. OPIC currently has one loan program in Rwanda. Given the enduring stability in the country and ongoing investment reform, OPIC officials have expressed strong interest in expanding its involvement.

The Export-Import Bank (EXIM) continues its program to insure short-term export credit transactions involving various payment terms, including open accounts that cover exports from the U.S. of consumer goods, services, commodities, and certain capital goods. Rwanda is a member of the Multilateral Investment Guarantee Agency (MIGA) and the African Trade Insurance Agency (ATI).

LABOR

General labor is available and improving, but there is a shortage of skilled labor, including accountants, lawyers, and technicians. Higher institutes of technology, many private universities, and vocational institutes are improving and producing more and more graduates each year.

Rwanda adheres to International Labor Organization (ILO) conventions protecting worker rights. Policies to protect workers in special labor conditions exist, but enforcement remains questionable. On-the-job training and technology transfer to local employees is encouraged but not obligatory.

The national labor code was revised in 2000 to eliminate gender discrimination, restrictions on the mobility of labor, and wage controls. Laws relating to insurance are being prepared. Companies will find skills deficits in many sectors when hiring, but these deficits will continue to shrink as literacy rates increase and more qualified people graduate from Rwandan institutions of higher learning. The general population's literacy rate continues to improve each year since the 1994 genocide and war.

FOREIGN TRADE ZONES/FREE PORTS

Rwanda is a member of several sub-regional economic organizations, such as the Economic Community of the Great Lakes (CEPGL), the Common Market for Eastern and Southern Africa (COMESA), and the East African Community (EAC). Member countries in COMESA operate under a free trade agreement. Goods originating from COMESA countries that fulfill conditions of rules of origin qualify for duty free status (value addition on imported raw materials must be 35 percent to qualify for duty free status). Rwanda plans to establish a free trade zone in the near future. Free trade between East African Community members is scheduled to start in 2009 and should boost investment in Rwanda.

FOREIGN DIRECT INVESTMENT STATISTICS

Foreign direct investment statistics from 2001 to 2004 as provided by UNCTAD are as follows. In 2001 FDI was USD 3.8 million or $ 2.30 per $1000 of GDP. In 2002 it was USD 7.4 millions or $4.50 per $1000 of GDP. In 2003 FDI was USD 4.7 millions or 3.00 in per $1000 of GDP. In 2004, FDI was USD 10.9 million or $5.90 in per $1000 of GDP. RIEPA reports FDI of $115.1 million for 2005 and $104.9 million for 2006. However, most observers consider RIEPA estimates to be inflated.
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